STANDARD & POOR'S

Global Social Housing Survey

International Public Finance Ratings

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INTRODUCTION: CREDIT TRENDS IN THE GLOBAL SOCIAL HOUSING SECTOR

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Affordable housing has in recent years become an increasingly important social and political issue, as the supply of housing has failed to keep pace with demand across both Europe and North America. Standard & Poor's is a global market leader in providing credit ratings for affordable housing in different parts of the world with different systems of regulation and support.

Changing demographics have led to increasing demand for affordable housing, and this demand has not been fully met either by the market or by government spending alone. As a result, mixed-funding solutions are increasingly being sought to meet affordable housing needs. Given the likely scale of future financing needs, Standard & Poor's expects bond finance and credit ratings to play an important role in funding affordable housing development.

The use of bond markets for affordable housing development is well established in the U.S., and bond markets are increasingly being used not only to fund public housing development, but also to expand sorely needed financing for modernization of the rapidly aging public housing stock. In the U.K., private funding for social housing investment is also well established but is largely provided by banks, although it is expected that bond markets will be used more in the future. In the rest of Europe, the use of private finance is more established in certain countries, such as in Sweden, than in others.

The strength of regulation and the level of support in the form of direct capital and operating subsidies from central government vary across countries. Providers of affordable housing which operate in systems with strong regulatory frameworks and good levels of government support are likely to have the strongest creditworthiness. It is important that investors understand the credit implications associated with different national and regional systems of regulation and support. For example, stable systems of regulation can support high ratings, even if the financial performance of individual affordable housing providers is relatively weak on a stand-alone basis. Changes to the regulatory environment are therefore key credit factors in reviewing individual affordable housing providers. ■

RECOVERY PROSPECTS WILL BE KEY FOR RATING U.K. HOUSING ASSOCIATION BONDS ABOVE THEIR ISSUERS

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The ratings that Standard & Poor's Ratings Services assigns to bonds issued by housing associations based in the U.K. can be notched above the underlying issuer, if recovery prospects in the event of default are sufficiently strong.

Standard & Poor's began rating the transactions of housing associations in the United Kingdom (U.K.; AAA/Stable/A-1+) in 1997, and now has issuer credit ratings (ICRs) on five such entities in the country. These ratings reflect the borrower's overall capacity and willingness to meet all its financial obligations as they fall due, but do not relate to specific debt issues.

Although these associations have significant debt obligations, most of the financing needs are provided by a relatively small number of banks, and to date few housing associations have issued bonds directly linked to their issuer credit rating.

Standard & Poor's also rates U.K. housing association structured bonds. These bonds are issued by special purpose entities (SPEs) and are secured on pools of properties that have been overcollateralized to achieve debt ratings higher than that of the borrowing association's own credit rating. The ratings on the bonds also benefit from structural features such as debt service reserves and other liquidity supports. These features would be available, for example, to fund debt service requirements and other expenses in the event of cash flow interruptions during the enforcement period after a borrower default, and to facilitate the replacement of the housing association borrower that operated the assets. As a result, the credit rating of the structured bond is not directly linked to the credit rating of the housing association borrower.

To date, the credit ratings assigned to U.K. housing associations are all in the 'A' category, stemming from strong ability and willingness to meet debt repayment obligations on a full and timely basis. The structured bond ratings are all in the 'AA' or 'AAA' categories, reflecting very strong ability and willingness to meet debt repayment obligations. All these ratings are supported by the stability and predictability of housing association cash flows, which benefit from rents largely paid by local authorities, from high occupancy demand for these properties, and from the supportive conduct of the sector's regulator, the Housing Corporation.

The positive credit factors are partially offset by the ongoing property maintenance requirements and the high debt levels used to fund capital programs and property asset acquisition. Moreover, the not-for-profit nature of these businesses typically results in relatively thin cash flow coverage ratios and tight liquidity, thus creating the potential for technical covenant breaches and possible delays on debt service payments, although Standard & Poor's is not aware of cash defaults in the sector to date.

Diversification Of Funding Sources Needed

Despite the current availability and attractiveness of bank finance, more forward-looking associations are seeking to diversify sources of funding and are considering issuing bonds to help meet funding needs in the future. A diversification strategy makes sense considering the likelihood of increasing concentration of development grants into fewer hands, and the relatively limited pool of banks with experience of lending to the sector. This concentration of development activity is likely to leave individual banks with increasing exposure to individual borrowers, and this may have a consequence on the cost and availability of funding.

As a result, a diversification of funding is expected, which would increase the amount of bond financing in the sector, and hence the need for credit ratings. In particular, an important feature of a Standard & Poor's credit rating is the aspect of timeliness of debt repayment. This emphasis on timeliness differentiates bond investors somewhat from bank lenders, which may be more willing to focus on the strong prospects for ultimate repayment of the loan amount even in the event of a default by a borrowing association. This is due to the control they can exercise over a defaulting association's assets, including the potential sale of assets. Banks have high confidence that they will recover loans from housing associations quickly and in full, reflecting their strong position as senior, secured lenders providing certain rights to control charged assets and cash flows arising from them, along with the sector's experience of sustainable asset values and a special insolvency regime for housing associations which enables lenders to enforce on security quickly.

The Notching Up Of Secured Bond Ratings

Under certain circumstances it may be possible for housing associations to issue bonds that are rated higher than the issuer credit rating of the association but (in contrast to the existing housing

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association structured bonds) are still linked to this ICR. This situation can arise if the bonds are underpinned by a strong security package with the expectation that there will be full recovery of the debt in a relatively short timeframe, in the event of a default by the borrowing association. In addition, this expectation is supported by the special insolvency regime that exists for U.K. housing associations. On this basis, an association rated in the 'A' category could issue bonds that could be notched for their strong security package into the 'AA' category. Other key factors considered for achieving a level of notching for secured bond ratings are the seniority of the notes, the quality of the collateral being secured, and the sustainability of the secured assets' value over the life of the notes (also reflecting the degree of conservatism in the valuation methodology undertaken).

The bond ratings notched for security in the cases described above would at all times be linked to the underlying rating on the association. Consequently, a change of the association rating is likely to result in a change of the bond rating.

In practice, the housing association borrowers vary in credit quality, and therefore not all would not be able to achieve 'AA' ratings for secured bond issues. The associations that may be able to achieve 'AA' category secured bond ratings are likely to be those with credit ratings in the 'A' category.

Well-secured 'AA' rated bonds linked to the association ratings are likely to be more competitive when compared with the all-in costs of bank finance including swap costs and fees. Furthermore, bond ratings should enhance the transparency of financing arrangements to the various stakeholders associated with the sector, and widen the funding base available to the sector by opening it out to international investors. ■

REPORT CARD: U.K. SOCIAL HOUSING

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Commentary/Key Credit Issues

Standard & Poor's Ratings Services maintains public credit ratings with regular annual surveillance for five large housing associations (HAs) in the United Kingdom (U.K.; AAA/Stable/A-1+). In addition, the agency also provides annual surveillance for 10 structured bonds issued by housing associations or by special purpose entities (SPEs) set up for the specific purpose to onlend to HAs. So far in 2005 and 2006, rating actions involving publicly rated housing associations comprise the downgrade of Home Group Ltd. in May to A/Stable/-- from A+/Negative/--, a downgrade to Shaftesbury Housing Association in September to BBB+/Stable/-- from A-/Negative/--, and a revision of the outlook on the 'A' long-term ratings on Places for People in October, to positive from stable.

These actions address specific credit issues associated with each individual association, and should not be taken to be an indication of changes in credit quality across the sector as a whole. Indeed, all publicly rated HAs in the U.K. remain well in the investment grade category, reflecting a sector with strong government support, an established regulatory framework, and robust financials. We believe, however, that there will be increasing credit diversity among different associations, as they adapt their business strategies to changing government policies and regulation. In the medium term, issuer credit ratings are likely to be confined to a relatively small number of large diversified associations with significant development ambitions and future debt financing requirements.

Continued government support

The quality and provision of social housing has always been high on the government's agenda and has received increased attention over the past few years. The Office of the Deputy Prime Minister (ODPM), who establishes national priorities and the policy framework, has actively promoted choice-based lettings for all, irrespective of economic background. To cope with the shortfall in social housing provision as identified in the review by Kate Barker commissioned by the government (completed in March 2004) and to improve the efficiency and effectiveness of service provision, the ODPM has initiated changes in the way the sector is regulated and how grants for development are allocated. Increasingly, development grants are being focused in the hands of fewer housing associations with the capacity and expertise to undertake major development and regeneration projects.

More recently, the government's initiatives concerning the creation and protection of sustainable communities, "Homes for all" and "Building for the future" have the common theme of increasing the supply of quality housing and building sustainable communities. In a sense the focus is now much wider than before. Whereas the original emphasis was to provide the less wealthy with a subsidized housing, the focus is now to provide people with the opportunities to move between tenancy types and, where possible, to progress toward home ownership depending on an individual's changing circumstances. In certain low-demand areas, large housing associations are taking the lead in regeneration activity and are increasingly seen as a vehicle for improving community services such as child care, schooling and health care, as well as housing. If this continues to be a successful model, it may result in the development of even larger associations with the capacity to undertake wider regeneration and development activity. This is likely to have important funding implications and will increase the debt needs for individual associations involved.

Recently, the government has been increasing allocations to the sector. The Housing Corporation (HC) has just announced a £3.9 billion national housing development program budget--one of its largest ever allocations from the government. Simultaneously, the ODPM has been advocating "value for money" and "efficiency savings" as part of the funding settlement. HAs are expected to achieve savings of £274 million, £550 million, and £835 million, respectively, over the next three years. Effective procurement methods, providing efficient services, and the increasing use of modern methods of construction are expected to be ways of achieving these savings.

In a bid to provide greater choice for social tenants, the ODPM has announced that housing benefit could be paid directly to tenants. Standard & Poor's is concerned that this proposal may cause higher levels of arrears and bad debts and higher costs of rent collection, and may therefore have negative credit implications. Well-managed associations are focusing on reducing existing levels of arrears ahead of any possible modification to housing benefit, to minimize the impact of this-change. Standard & Poor's will continue to monitor any developments in this area closely.

The ODPM has also recently announced the introduction of the new Homebuy initiative in a bid to encourage greater levels of home ownership. Homebuy is very similar to the shared ownership schemes that are currently in operation. The government, through HAs, will fund up to 25% of the purchase price of the property. This will not need to be serviced while the social tenant/owner lives in the property, but up to 25% of the sale price will be repayable when the property is sold. Accordingly, the social tenant will have to fund at least 75% of the purchase through a mixture of a mortgage and personal savings. In the short term, the effect is likely to be minimal, since available government funding for the initiative is currently limited and few social housing tenants will have the financial ability to take advantage of the initiative. If, however, further government initiatives that may expose HAs to the volatility of the private housing market are introduced, this is likely to have negative credit implications.

Robust regulatory framework

Grant allocation and regulation is undertaken by the (HC), while regular inspections are carried out by the Audit Commission (AC). The two organizations work closely together to ensure that public money is used in the most effective and efficient manner. Within the scope of its regulatory powers, the HC assesses and publicly reports on associations' financial viability, governance procedures, management performance, and grant funded new-build development achievements. The Corporation can also use its regulatory powers to intervene and make board-level appointments if it is of the opinion that an association is not managed or governed properly and/or if it receives poor reports from the Audit Commission as to the quality of the service that the particular association delivers to its tenants.

Secured creditors of housing associations are governed by the provisions of Housing Act 1996. The Act sets out the framework for the regulation of HAs, as well as the provisions that govern the enforcement of security over property owned by HAs. In the event of enforcement there is a moratorium that will generally be no longer than 28 days from the date the Housing Corporation is notified of the intention to enforce the security. Furthermore, the proactive role of the regulator in terms of responding to financially distressed associations means that the event of enforcement is likely to be remote in any case.

The role and powers of the HC have been under review and a number of possible options could be considered. At this time, however, Standard & Poor's is not aware of any significant change to regulation that could weaken the level of support provided to the sector.

Emerging Trends Among Associations

Strengthening financial profiles

The financial profile of the sector continues to strengthen, helped in part by a decline in funding costs. We expect to see continued growth in the asset base, both organically and through transfers. Managers are becoming more aware of the need for robust systems of governance, in particular in terms of financial scrutiny, as well as the education and training of staff in the areas of treasury and risk management. There has also been an ongoing shift of talent from the corporate for-profit sectors to the housing association sector and this has introduced "new thinking" in terms of financial management and funding methods.

Furthermore, financial profiles should in general continue to strengthen as the sector focuses on improving efficiency, although we expect creditworthiness to weaken in a few individual cases where housing associations have not managed development properly, or have not effectively addressed demand problems.

Continuing consolidation helps to harness efficiencies

Consolidation within this sector is continuing through the growth of group structures and mergers. Although mergers can encourage business synergies, cultural differences between organizations can impede the delivery of benefits to the business. Developments in the sector are encouraging the emergence of three broad groups of HAs: small associations which mainly engage in local housing management; the large associations (or groups of associations) which bid for grants and are the big developers of new social housing; and the large-scale voluntary transfers (which focus on upgrading transferred council stock).

The emergence of large organizations under umbrella group structures permits cost savings including bulk procurement of materials and the sharing of IT resources, back office facilities, and call centers. Financial profiles have already improved in some cases, as group mergers have delivered savings and achieved critical mass in areas of services provision, although benefits from these trends have tended to be on an incremental basis.

Consolidation in the sector is also expected to continue and Standard & Poor's has seen increased interest in credit assessments to establish the credit implications of a merger for a group or an individual association.

Diversification helps support core activity

The HC has always encouraged a certain degree of manageable diversification among HAs, as well as the use of surpluses earned on nonregulated activities including market renting, properties built for sale, student accommodation, nursing homes, and other joint ventures, to subsidize further investment in social housing. The overall level of this activity in the sector, however, is still limited. Although certain associations have been able to achieve reasonable surpluses in the provision of these services, others have been less successful and have either had to sell these unprofitable businesses or have seen a general weakening in their overall financial profile.

Stock transfers

The transfer of stock from the local authority sector has contributed to a significant increase in stock in the social housing sector and the construction of new units will continue to stimulate the growth. The latest figures show that the transfer of stock accounted for 55% of the growth in unit numbers in the past year. We expect transfers to continue, but there may be a degree of deceleration if local authorities decide to use their prudential borrowing powers to fund investment in their housing stock, or if the private finance initiative (PFI) develops as an important way of meeting funding needs.

Increasing role of the private sector

Development grant worth £3.9 billion will be distributed to development partners and private housebuilders. This will be the first time that a government grant will be distributed to private housebuilders as well as HAs. It is anticipated that this increased competition will encourage more efficient delivery of new housing development and will expand housing provision. The government is keen to see developers provide a range of housing solutions, including social housing, shared ownership, market-rent, and owner-occupier. Housing associations and private property developers will play a role in meeting this mixed housing solution, with housing associations and private developers being able to provide both social housing and non-social housing.

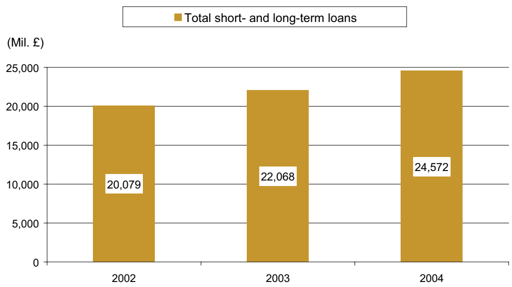
To date, housing associations have tended to be prudent in their business plan assumptions regarding income from staircasing (incremental sale to tenants) and outright sale. Increasing reliance on this type of income, however, will raise the risk profile of associations, making them more exposed to the volatility of the housing market.

Grants will continue to be given for regeneration of certain areas where there are demand issues. Managing demand in these areas, even with additional government funding, will continue to present specific challenges.

New and more complex methods of funding and treasury management

The sector's two main sources of capital finance are public funded grant and private debt. The debt of the sector rose by 11.3% to £24.6 billion, compared with a 6% increase in Social Housing Grant (SHG) to £28.1 billion (see chart 1). In general, associations have comfortable leverage levels and are well placed from an asset value perspective to support further debt.

Chart 1
U.K. Social Housing Sector
Growth In Private Debt



The emergence of large housing associations with almost £1 billion of debt means that future funding strategies and treasury management approaches have become very important. Banks and building societies provide a significant part of the lending to housing associations, and despite changes in the sector, lending rates have remained very competitive.

Increased Potential For Capital Markets

Grant funding for development is increasingly concentrated in fewer individual housing associations or groups of associations. Demand for private funding from these associations is also high, which in turn increases exposure risks between individual banks and individual associations. Finance is mostly provided by a limited group of U.K. banks and building societies. Due to favorable bank lending terms in recent years, there has been little new bond issuance. Standard & Poor's expects that there will be an increase in bond issuance, particularly among the bigger housing associations with large development plans. This increase will be driven by borrowers seeking to diversify their sources of funds and to reduce their exposure to a relatively small number of banks and building societies.

New bond funding is likely to be a mix of structured transactions and bond issues directly linked to the credit rating on the association. As well as individual associations seeking to use bond markets, there has also been an increase in banks seeking to securitize their social housing loan portfolios through the capital markets, for example the HBOS Treasury Services PLC Covered Bond Programme social housing series, rated 'AAA'. This securitization activity is also expected to increase. ■

Table 1: U.K. Housing Association Ratings

Entity	Ratings as of Feb. 1, 2006	Analyst	Comments
Affinity Homes Group Ltd. (formerly DownlandAffinity Group Ltd.)	A/Stable/--	Liesl Saldanha, Robert Robinson	Strengths: (i) Strong cash-flow generating ability and and sufficient funds available to reinvest and to service and repay debt; (ii) strong liquidity and access to debt funds; (iii) good geographic location of properties and potential to widen areas of operation; and (iv) strong management team to supervise operations and executive team to provide required direction. ### Weaknesses: (i) Ongoing maintenance-spending pressure, notably for Broomleigh Housing Association, an operating subsidiary of Affinity; and (ii) aggressive development plan that could put pressure on resources. ### Outlook: The stable outlook reflects the continued good progress made by the group in aligning its strategic goals and working together across the group in the achievement of these goals.
Home Group Ltd. (HGL)	A/Stable/--	Liesl Saldanha, Robert Robinson	Strengths: (i) Geographically diverse property portfolio, with strong demand for social housing in most areas of operation; (ii) sound operating performance; (iii) strong management team, with good links to government and an important role in meeting public policy objectives; (iv) higher maintenance, which should improve the group's stock and long-term demand; and (v) strong property sales forecast. ### Weaknesses: (i) Increase in maintenance and management expenditure, which is reducing the operating surplus; (ii) increasing forecast debt levels that could put further pressure on interest coverage ratios; (iii) reduction in grant levels for Supporting People schemes affecting the group's care division, which accounts for one-third of group turnover; and (iv) new divisional structure, which may make it difficult to attract future merger partners and thereby limit the group's development ambitions. To date, however, the divisional structure has not affected HGL's success in attracting Copeland Homes and Nashayman Housing as partners to the group. ### Outlook: The stable outlook takes into account the expectation that care division Stonham will deliver on its efficiency program and that the results of the stock condition survey for HGL--expected in the first quarter of 2006--will not result in a significant increase in maintenance expenditure from forecast levels.
Places for People Group (PfP)	A/Positive/--	Liesl Saldanha, Robert Robinson	Strengths: (i) Strong financial and operating performance; (ii) comfortable and stable coverage ratios; (iii) clear strategy, both operational and financial, for a controlled expansion; and (iv) sufficient financial flexibility and tightly controlled finances. ### Weaknesses: (i) Recent merger with Castle Rock will take time to bed down; (ii) absolute debt levels are high; (iii) reduced levels of government development grants; (iv) risks of significant step-up in development, particularly if, as expected, the Group becomes a development partner of The Housing Corporation; and (v) some market exposure via unregulated subsidiaries Blueroom Properties Ltd. and Emblem Homes Ltd. ### Outlook: The positive outlook reflects our expectation that the rating may be raised in the near term, predicated on the continuation and consistency of PfP's business strategy, with its dominant focus on core social housing activities, and strong financial performance.
Sanctuary Housing Association (SHA)	A/Stable/--	Liesl Saldanha, Carl Nyrerod, Robert Robinson	Strengths: (i) Robust operating and financial performance; (ii) competent and very experienced management team; (iii) good-quality assets, which are favorably located and well-maintained; (iv) strong strategic position to take advantage of changes in the social housing sector; and (v) high levels of fixed-rate debt and very low exposure to interest-rate rises. ### Weaknesses: (i) Speed of growth of the business through mergers and acquisitions, which may possibly lead to management capacity issues; and (ii) increased risk of diversification into areas other than general-needs social housing, notably care-home provision, that may increase business risk and also lead to some short-term stress on the financial profile. ### Outlook: The stable outlook on SHA reflects the strong financial position relative to other similarly rated associations, and the high demand profile for the assets.

Table 1: U.K. Housing Association Ratings (Cont'd)

Entity	Ratings as of Feb. 1, 2006	Analyst	Comments
Shaftesbury Housing Association	BBB+/Stable/--	Hugo Foxwood, Robert Robinson	Strengths: (i) Clear business strategy to divest stock, which should increase business efficiency and improve the financial profile over time; (ii) strong underlying value of assets, mostly located in high-demand areas of Southeast England; and (iii) stable regulatory framework and support. ### Weaknesses: (i) Potential difficulties in divesting stock within the planned timescale; (ii) weak financial performance resulting in deficit for past year, which has technically breached several loan covenants (although lenders have agreed to waive their right to accelerated repayment); and (iii) continuation of Housing Corporation supervision, which restricts the development pipeline. ### The stable outlook on Shaftesbury reflects our expectation that the Group will bring its financial situation under control and move toward a more sustainable operating position in the longer term. Specifically, Shaftesbury is expected to show evidence of delivery on its recovery plan, although the timetable it has set itself is challenging. If Shaftesbury achieves its planned stock-disposal program within its specified timeframe and moves to a more sustainable operating position, then an upgrade could be possible in the short-to-medium term. If, however, the program is substantially delayed, then this could lead to short-term liquidity pressures.

Table 2: U.K. Housing Association Transaction Ratings

Entity	Debt Security Ratings as of Feb. 1, 2006	Analyst	Comments
Guinness Housing Trust £100 mil. 7.5% Bonds due 2037	AA-	Liesl Saldanha, Robert Robinson	The 'AA-' senior secured debt rating on the £100 million ($186 million) 7.5% first mortgage debentures due 2037, issued by the Guinness Trust (formerly referred to as the Guinness Housing Trust), reflects the strong performance of the bonds (net interest coverage of 1.34x) and the good cash-flow-generating characteristics of the charged property portfolios, including high rent-collection levels. A certain level of overperformance in the transaction was anticipated in the rating, in order for the payments to comfortably commence principal amortization, which begins in 2008. As the amortization point approaches, however, to the extent that the Trust can demonstrate a sustained level of overperformance, while also maintaining an appropriate level and quality of charged properties in the portfolio, Standard & Poor's will consider reviewing the transaction for a higher rating.
Harbour Funding PLC £255.9 mil. 5.28% Bonds due 2044	AA-	Liesl Saldanha, Robert Robinson	The 'AA-' senior secured debt rating on the £255.9 million ($490.1 million) 5.28% senior secured bonds due 2044 (expected maturity 2034), issued by Harbour Funding PLC, a special-purpose vehicle (SPV) set up for the sole purpose of issuing bond debt and on lending to housing associations (HAs), reflects the expected performance of the bonds, with interest coverage ranging between 1.45x and 1.82x, and the strong cash flow-generating characteristics of the charged property port folios, including the good rent-collection performance of all HAs drawing on the bond.
Haven Funding (32) PLC £100.5 mil. 7% Bonds due 2032	AA-	Liesl Saldanha, Robert Robinson	The 'AA-' senior secured debt rating on the £100.5 million 7.0% senior secured bonds due 2032, issued by Haven funding (32) PLC, a special-purpose vehicle set up for the sole purpose of issuing bond debt, reflects the strong performance of the bonds, including net interest coverage of 1.18x to 1.99x; good cash-flow-generating characteristics of the charged property portfolios, including good rent collection performance of all registered social landlords (RSLs) drawing on the bond; and the strong credit quality of the underlying borrowers.
Haven Funding PLC £329.4 mil. 8.125% Bonds due 2037	AA-	Liesl Saldanha, Robert Robinson	The 'AA-' senior secured debt rating on the £329.4 million ($630.9 million) 8.125% senior secured bonds due 2037, issued by Haven Funding PLC, a special-purpose vehicle (SPV) set up for the sole purpose of issuing bond debt, reflects the expected performance of the bonds, with net interest coverage of 1.16x to 1.45x, and the good cashflow-generating characteristics of the charged property portfolios, including strong rent-collection performance of all registered social landlords (RSLs) drawing on the bond.
Housing Association Funding PLC (HAF) £192.2 mil 8.25% Bonds due 2027	AAA	Stuart Nelson, Liesl Saldanha	The 'AAA' senior secured debt rating on the £192.2 million 8.25% senior secured bonds due 2027, issued by HAF PLC, a special-purpose vehicle (SPV) set up for the sole purpose of issuing bond debt and on lending to housing associations, reflects the expected performance of the bonds and the strong cash flow-generating characteristics of the charged property portfolios, with net rental coverage of 1.22x. In June 2005, a tap of £31.3 million was issued to existing borrowers under the transaction. The rating on the entire transaction was affirmed at the time.
North British Housing Ltd. £100 mil. 6.625% Bonds due 2038	AA	Liesl Saldanha, Robert Robinson	The 'AA' senior secured debt rating on the £100 million ($177 million) 6.625% senior secured bonds due 2038, issued by U.K.-based North British Housing Ltd. (NBH; formerly called North British Housing Association Ltd.), reflects the strong performance of the bonds, with net interest coverage of 1.22x; good cash-flow-generating characteristics of the charged property portfolio, including good rent collection performance; and the strong credit quality of the underlying borrower. NBH is the largest registered social landlord (RSL) in the U.K., and the main subsidiary of Places for People Group (PfP; A/Positive/--).

Table 2: U.K. Housing Association Transaction Ratings (Cont'd)

Entity	Debt Security Ratings as of Feb. 1, 2006	Analyst	Comments
North British Housing Ltd. £200 mil. 5.09% Bonds due 2043	AA-	Liesl Saldanha, Robert Robinson	The 'AA-' senior secured debt rating on the £200 million ($360 million) 5.09% senior secured bonds due 2043 (expected maturity 2024), issued by U.K.-based North British Housing Ltd. (NBH), reflects the performance of the bonds, with a net interest coverage of 1.20x in year one; the good cash-flow-generating characteristics of the charged property portfolio, including good rent collection performance to date; and the strong credit quality of the underlying borrower. NBH, formerly called North British Housing Association Ltd., is the largest registered social landlord (RSL) in the U.K. and the main subsidiary of Places for People Group (PfP; A/Stable/--).
RSL Finance No. 1 £324.95 mil. 6.625% Bonds due March 31, 2038	AA-	Liesl Saldanha, Robert Robinson	The 'AA-' senior secured debt rating on the £342.95 million ($637.13 million) 6.625% senior secured bonds due 2038, issued by U.K.-based RSL Finance (No.1) PLC, a special-purpose vehicle set up for the sole purpose of issuing bond debt, reflects the strong performance of the bonds, which have net interest coverage of 1.29x to 1.62x; good cash-flow-generating characteristics of the charged property portfolios; and the good rent-collection performance of all the registered social landlords (RSLs) drawing on the bond. The bond proceeds are used for acquiring existing loans and onlending the net proceeds to individual U.K. housing associations, under separate secured loan agreements.
Sanctuary Housing Association £110 mil. 8.375% Bonds due 2031	AA-	Liesl Saldanha, Robert Robinson	The 'AA-' rating on the £110 million ($201 million) senior secured bonds due 2031 issued by U.K.-based Sanctuary Housing Assn. (SHA; A/Stable/--) reflects the strong performance of the bond and the charged property portfolio, with net interest coverage of 1.20x, good rent collection performance, existence of a dedicated debt-service reserve (DSR), and sound credit quality of the underlying borrower. Offsetting factors include the refinancing risk on the partial bullet maturing, exposure to the general property market, and changes in housing policy.
Sunderland (SHG) Finance PLC £239.5 mil. 6.38% Bonds Due 2042	AA-	Liesl Saldanha, Robert Robinson	The 'AA-' senior secured debt rating on the £239.5 million ($418 million) fixed-rate bonds, due 2042, reflects the robust performance of the bonds and the charged property portfolio, good rent-collection performance, a DSR fund, significant overcollateralization, and continued high demand for properties. The notes continue to perform well above the minimum levels due to significant overcollateralization that in part reflects the risk of a transfer organization. The original business plan was substantially revised in 2003 to reflect increased expenditure on the stock earlier in the program. The revised business plan also supported a reduction in security supporting the bonds. The first release of security took place in May 2005 and the number of charged property units now stands at 21,000, down from 24,472 units. This release was per the original covenant, which specified that two property releases were permissible in the first seven years, subject to certain performance tests. Sunderland has indicated that it intends to apply for a second release within the next 12 months and that the number of charged property units is expected to go down to 17,000. Nevertheless, Standard & Poor's expects that the minimum performance levels will still be met comfortably after the second release of property.
The Housing Finance Corporation (Funding No. 1) £66.3 mil. Bonds due 2037	AA-	Robert Robinson, Adele Archer	The 'AA-' senior secured debt rating to the expected £66.3 million bonds due 2037 was issued by the U.K.-based special-purpose vehicle T.H.F.C. (Funding No. 1) PLC. The bonds are secured on loans to The Housing Finance Corporation Ltd. (THFC; A+/Stable/A-1). The loans are secured on the assets of THFC, which also benefits from a 24-month-interest-payment dedicated liquidity facility provided by ABN AMRO Bank N.V. (AA-/Stable/A-1+), allowing the bonds to be rated one notch above the THFC rating. The rating on the bonds, however, is directly linked to the issuer credit rating on THFC and also to the rating on the liquidity facility provider, ABN AMRO Bank. A change in the rating on THFC, or a change in the short-term rating on the liquidity facility provider, may result in a change in the rating on the bonds.

REPORT CARD: SOCIAL HOUSING IN SWEDEN

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Commentary/Key Credit Issues

Standard & Poor's Ratings Services currently rates five Swedish public-housing companies. The ratings are all in the 'A' rating category with stable outlooks.

Swedish public-housing companies are 100% owned by municipalities and are only allowed to operate within the borders of their respective municipalities. The companies have played a critical role in Sweden's housing market for the past fifty years and today about 340 public-housing companies accommodate 1.5 million people, or about 17% of the population. Almost one-third of all multi-family dwellings are publicly owned. The public-housing sector has a strong influence on the overall rental housing market as the market-leader in setting rental prices.

Compared internationally, the standards of Swedish public-housing apartments are generally high, and there is no equivalent of the low-cost or social housing prevalent in some other European countries. Everyone, regardless of income, has the possibility of renting an apartment, if available, from a public-housing company. In the event of, for example, unemployment, social security benefits are payable to tenants (not to the housing company) to cover a proportion of rental payments.

Public support features

Standard & Poor's analytical approach to government supported entities focuses on the status-quo credit quality of the entity, and the relationship and links between the supporting level of government and the entity. Standard & Poor's uses three broad categories for government-supported entities, assessing the strength and credit implications of government ownership or support (see article Revised Rating Methodology for Government-Supported Entities, June 5, 2001, on RatingsDirect, Standard & Poor's Web-based credit analysis system). Swedish public-housing companies are generally considered to belong to the third category, with less pronounced public support. As a result, the government-supported entity ratings are usually the same or one or two notches above status-quo ratings. A government-supported issuer credit rating in this category would generally be no more than one rating category above its status-quo rating. There are, however, cases where the housing company has closer links to its owner and therefore belongs to the second category. Issuer credit ratings in this category would generally be notched down from the government owner (municipality), but are generally within two categories of the government's rating.

Although most public-housing companies are limited liability companies and have no general guarantee from their owners they still benefit from varying degrees of implicit support from their owners. The support is not formalized, however, and could, for example, be guarantees on part of the loan portfolio, favorable acquisition terms when buying land and properties from the owner, or special lease contracts with the municipality, low yield/dividend requirement, and in some cases capital injections. Temporary national legislation prevents municipalities from divesting their public-housing companies and also regulates and restricts the size of the dividend that can be paid out. During the 1990s there was also a special central government scheme where public-housing companies with financial difficulties could apply for and receive special support from the central government. Standard & Poor's is not aware of any public-housing company in Sweden having defaulted on debt obligations.

Status-quo creditworthiness

Public-housing companies in Sweden were previously sheltered by a number of central government benefits such as special subsidies for new construction and refurbishment for residential dwellings.

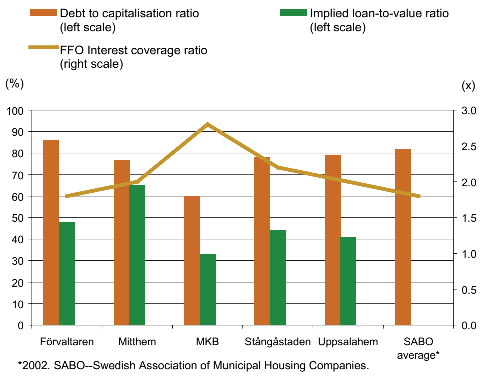
The subsidies, however, have now been significantly reduced. In combination with the trend of depopulation in rural areas, this has resulted in greater differences in creditworthiness among companies on a status-quo basis. There are considerable differences in both operating risk (determined, for example, by supply and demand in the local market as well as the property portfolio) and financial risk (for example, gearing, profitability, interest coverage, and self-financing of investments). The difference in ratings, however, is to some extent reduced by more or less pronounced implicit support from the companies' owners.

Standard & Poor's finds operating risk to be the most important factor to consider in assessing status-quo credit risk of public-housing companies. Important indicators of operating risk are supply and demand for various kinds of housing, vacancy rates, rental level versus rental or cost level in comparable housing on the local market, tenant turnover rate, maintenance standard and composition of property portfolio in terms of property type, location, age, and apartment sizes.

Managerial strategy is another important factor in the risk assessment of public-housing companies. Differing strategies can be found among Swedish public-housing companies, such as on how the company operates its capital structure in terms of loan duration and self-financing of investments. Furthermore, there are different strategies on, for example, rental differentiation, relative size of commercial property portfolio and attitude towards engaging in new production. Unlike in the U.K., however, there are no major managerial strategy differences in terms of issues such as cross municipal borders mergers/large scale voluntary transfers or regeneration projects. Another managerial difference compared with the U.K. is that in Sweden the responsible authority is the owner municipality, whereas in the U.K. the Housing Corporation (a state agency) acts as the main regulator for the sector.

Generally, the Swedish public-housing companies operate with a high leverage according to book values, which for some companies is mitigated by surplus values, that is market values exceeding book values. As with the Swedish debt market in general the debt profile is short for most public-housing companies, exposing the sector to interest rate movements as well as refinancing risk. Profitability is stable but modest and interest rate coverage ratios range mostly between 1-2 (x) times (see chart 1). The companies not-profit-maximizing profile, however, reduces the potential upper limit for profit margin and interest cover. Except for the companies with the worst market conditions, however, there is not a very obvious trend that the companies with the best market conditions and highest surplus values should be the most profitable.

Chart 1
Debt To Capitalization And FFO Interest Coverage Of Rated Swedish Public Housing Providers

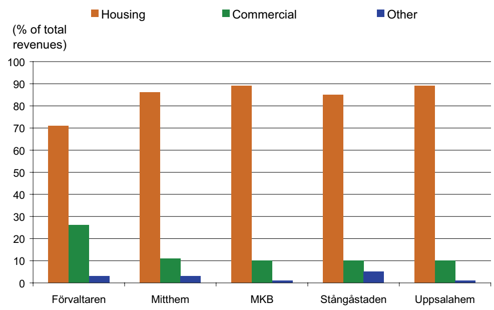


*2002. SABO--Swedish Association of Municipal Housing Companies.

Stable outlook for the sector

Housing rents in Sweden are set according to the utility value system, regardless of whether landlords are public or private entities. This implies that rental levels for every individual public-housing company are determined annually or biannually on a nonprofit basis, based on the prime cost principle, through negotiations with the local tenants' association. The negotiated levels in the public sector are also used as upper limits for the private landlords' rental structure, whereby the rents are set with reference to the rents of equivalent dwellings in the neighborhood that are owned and managed by a municipal housing company. The public-housing sector is therefore the practice or market leader for the rental housing market, which to some extent limits the public-housing companies' operating risk. Going forward, rental negotiations are expected to result in modest increases in housing rents and profitability and coverage ratios are largely expected to remain stable.

Chart 2
Rent Structure Of Rated Swedish Public Housing Providers*



*2003.

Standard & Poor's analyzes new production of housing in detail since it adds uncertainty in terms of future demand and supply, production costs, investment grants, and tenants' propensity to pay rent to cover actual costs in the newly built housing properties.

Standard & Poor's will monitor the possible introduction of IFRS accounting standards among the public-housing companies and its impact on ratings. For more information on impact of IFRS read research article "Transition Without Tears: A Five-Point Plan for IFRS Disclosure," published on RatingsDirect on Dec. 6, 2004. ■

Table 1: Swedish Housing Association Ratings

Entity	Ratings as of Feb. 1, 2006	Analyst	Comments
Fastighets AB Förvaltaren	(A/Stable/A-1; K-1)	Carl Nyreröd	Compared with the Swedish public-housing sector average, Förvaltaren has a large proportion of commercial premises, rental income from which accounts for 29% of total revenues. The vacancy rate in Förvaltaren's portfolio of commercial premises is high at over 10% from October 2004, or about 3% of Förvaltaren's total property portfolio. Although vacancy rates and rental levels appear to have bottomed out and are not expected to have a material negative impact on Förvaltaren's financial performance. Förvaltaren shows adequate financial performance, with funds from operations (FFO) interest coverage at an adequate 1.8x in 2003, which is average for the sector. In line with Swedish public-housing peers, Förvaltaren has significant reliance on short-term funding, making it sensitive to both interest-rate and refinancing risk. Interest rate risk is, however, mitigated by an adequate buffer in interest coverage ratios and ample credit facilities. Förvaltaren has relatively high debt levels compared with international peers, but they are close to the Swedish public-housing sector average, at 86%. Owner: City of Sundbyberg (A+/Stable/-).
MKB Fastighets AB	(A+/Stable/A-1; K-1)	Carl Nyreröd	MKB continues to show strong financial performance. Pretax interest coverage was an adequate 2.0x in 2004 (up from 1.6x in 2003), and is forecast to remain at this level over the next few years. MKB also enjoys strong and stable cash flow, with funds from operations interest coverage at a healthy 3.5x in 2004 (up from 2.8x in 2003). Although MKB has relatively high debt levels compared with international peers, leverage is lower than the Swedish public-housing sector average. At year-end 20043, MKB's total debt to capitalization was 62%. MKB has an above-sector-average reliance on short-term funding, making it sensitive to both interest-rate and refinancing risk. Interest rate risk is, however, mitigated by interest rate caps and a buffer in interest coverage ratios. Refinancing risk is mitigated by ample committed bank lines and liquidity facilities. Owner: City of Malmö (not rated).
Mitthem AB	(A/Stable/--; K-1)	Carl Nyreröd	Over the past eight years, Mitthem has divested its less attractive and more isolated properties, and its vacancy rate has continued to fall to a very low 0.6% at year-end 2004, down from a high 13% in 1996. Funds from operations (FFO) interest coverage improved to an adequate 2.2x in 2004, from 2.0x in 2003. Going forward, profitability and cash flows are expected to remain at adequate levels. Interestr duration of the loan portfolio is rather short and declining at 1.9 years. This is in line with the Swedish public housing average, but it is short in an international comparison and adds to the overall financial risk. Mitthem's low business risk, however, balances the company's somewhat aggressive financial profile. Mitthem has relatively high debt levels, with a debt-to-capital ratio of 77% at year-end 2004. Owner: City of Sundsvall (AA-/Stable/A-1+).
Stångåstaden AB City	(A+/Stable/A-1; K-1)	Carl Nyreröd	Stångåstaden shows strong financial performance above the Swedish public housing sector average. EBITDA interest coverage in 2004 improved to 2.8x (2.3x in 2003). The company's cash flow is strong and stable, with funds from operations interest coverage at a healthy 2.6x in 2004. In line with Swedish peers, Stångåstaden relies heavily on short-term funding, making it sensitive to both interest-rate and refinancing risk. Interest-rate risk is, however, mitigated by an adequate buffer in interest coverage ratios. Refinancing risk is mitigated by ample committed bank lines. At year-end 2004, Stångåstaden's total debt to capitalization was 74%, which was an improvement from 78% in 2003 and stronger than the Swedish public housing sector average. Owner: of Linköping (not rated).
Uppsalahem AB	(A/Stable/A-1; K-1)	Carl Nyreröd	During the next five years, Uppsalahem intends to build about 1,500 new apartments. Although the investments are being partially financed with funds from operations, the company needs to take out new loans to help fund the project, and this could have a slightly negative impact on key ratios such as interest coverage and leverage. Uppsalahem operates with a very short debt profile. At year-end 2003, the debt portfolio had an interest-rate duration (including derivatives contracts) of 15 months. The exposure is, however, somewhat mitigated by the company's use of interest rate caps, which protects it, within certain limits, against a dramatic increase in interest rate. Uppsalahem benefits from fairly stable--although decreasing--cash flows from operations. Pretax FFO interest coverage amounted to an adequate 2x in 2003, slightly down from 2.2x in 2002, and is expected to remain above 2x in the medium term. Owner: City of Uppsala (AA/Stable/A-1+).

Table 2: Swedish Housing Association Bond Ratings

Entity	Debt Security Ratings as of Feb. 1, 2006	Analyst	Comments
Framtiden Residential Housing Finance No.3 AB (publ)	AAA	Stuart Nelson	This 2001 transaction effectively employed the same structure as the previous transaction, benefiting similarly from the highly diversified but stable income streams enjoyed by municipal housing companies in Gothenburg, and performance levels have been at the same rate as its predecessor.
Framtiden Multi-Family Housing Finance No.4 AB (publ)	AAA	Stuart Nelson	This transaction closed in 2002, replicating the proven structures of previous deals. Performance levels have also been replicated in terms of both leverage and coverage.
Framtiden Public Housing Finance No. 5 AB (publ)	AAA	Stuart Nelson	This transaction closed in 2004 and demonstrated how Framtiden had established a successful program of securitizations to fund its multi-family housing companies with repeat deal structures to achieve funding at competitive rates. Effectively, this transaction is a financing of a property portfolio that was securitized in Framtiden Bostadsfinansiering 1 AB. Of the properties, 78% by value were included in Framtiden Bostadsfinansiering 1, and we would expect performance of this transaction to mirror that witnessed in earlier issuances.
Akero Multifamily Housing No. 1 Ltd.	AAA; A; BBB	Stuart Nelson	This 2005 transaction was another secured loan CMBS transaction with the issuing vehicle granting loans to two borrowers, Akelius Fastigheter i Haninge AB and Akelius Lägenheter AB (part of the Akelius Fastigheter group) secured against 32 residential properties (comprising 6,484 apartments), located across Sweden with a two-thirds concentration in Stockholm. This transaction is similar in structure to the Framtiden series of transactions. However, in this case, the underlying loans are cross-collateralized through limited guarantees, and three separately rated classes of notes have been issued.

Table 3: Previously Published Related Articles*

Article title	Publication date
Transition Without Tears: A Five-Point Plan for IFRS Disclosure	Dec. 6, 2004
Credit Approach to Rating Social and Public Housing Providers	Nov. 30, 2004
Swedish Public Housing Sector Could Face Threat from New Accounting Recommendations	May 13, 2002
Revised Rating Methodology For Government-Supported Entities	June 5, 2001
Rating Swedish Public Housing Providers--The Role of Revenue Stability and Predictability	Oct. 12, 2000

*Articles are available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com.

PUBLIC FINANCE REPORT CARD: U.S. PUBLIC HOUSING AUTHORITY CAPITAL FUND SECURITIZATION RATINGS

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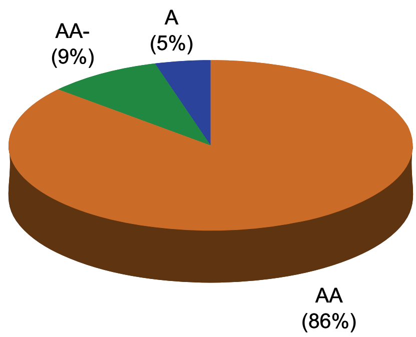
Standard & Poor's Ratings Services' review of its 22 public housing authority capital fund financing program (CFFP) ratings indicates strong overall performance, but the trend of declining Congressional appropriations to the program warrants continued monitoring. Ratings range from 'AAA' (bond insured) to 'A', and all reviews to date have resulted in affirmations. While debt service coverage (DSC) is still strong at an average of 4.62x, many issues show declining coverage due to federal cuts in modernization funds during the past few years.

Chart 1
Public Housing Authority Capital Fund Securitization Ratings Distributions



The primary credit risk of these transactions is failure of Congress, in any given year, to appropriate funds for the public housing modernization program, or a substantial decrease in the amount of funds appropriated for the program. Although the aggregate of the decreases in capital fund appropriations remains within historic thresholds, the modernization program has experienced a five-year continuous decline in overall appropriations for the first time since its inception.

Chart 2
Total HUD Modernization Appropriations

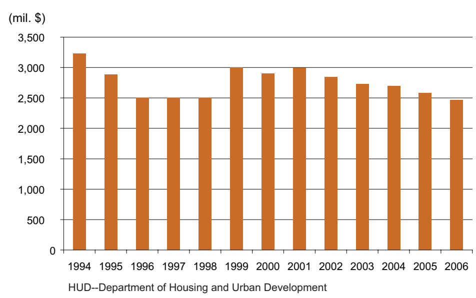
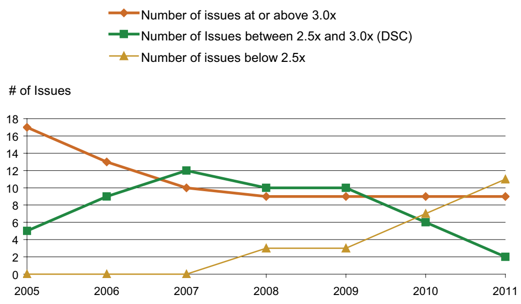


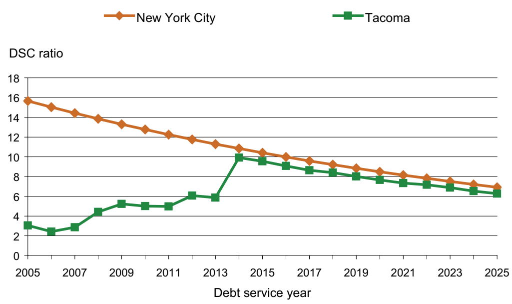
Chart 3
Expected Credit Quality Based On Declining Appropriations



Standard & Poor's tested coverage levels on rated issues, assuming an annual 4% reduction over the term of the bonds. No issue fell below one times coverage. Because these transactions are structured such that annual allocations of capital funds are pledged first and directly to the trust estate, debt service payments would be met during the life of the bonds under this assumption. Nonetheless, the degree of government support associated with future and continued decreases can have certain programmatic and social implications if debt service is paid while other modernization needs are not readily addressed. In addition, annual appropriations can be reduced by more than 4% in any given year, which would have an even more negative impact on debt service. Standard & Poor's carefully monitors these factors that potentially can affect the credit quality program of the CFFP program.

Under this scenario, 45% of issues rated by Standard & Poor's opened at 3.0x coverage at rating, and potentially could be below 2.5x coverage by 2011 (see chart 3). Transactions that are structured with higher DSC will fare better if decreases continue, as they are able to maintain at least 3.0x coverage for a longer period, even if appropriations declines continue. One example is the New York City Housing Authority, which opened at 15.59x DSC and now has a DSC of 15.65x (see chart 4 on the next page). Transactions structured whereby the principal payment is hyper-amortized early in the transaction will also perform better under a trend of decreasing appropriations, primarily because debt service payments decline over the term of the bonds. The Tacoma Housing Authority bond issue opened at 3.0x coverage. However, because principal is paid down quickly over the early years of the bond term, the actual DSC remains strong at average of 6.63x as debt payments are decreased after year six, even in the event of continued 4% decreases over the bonds term. Transactions structured in this manner are more likely to withstand future cuts in the capital fund appropriation because of the DSC growth (see chart 4). However, because the additional bonds test is at 3.0x coverage, 'AA' is the appropriate rating level in these two examples.

Chart 4
Effects Of Hyper-Amortization And High Coverage At Issuance Versus Declining Appropriations



Standard & Poor's looks closely at the authorities' past modernization performance, particularly because future poor performance circumstances could have a negative impact on the flow of the capital funds pledge directly to the bonds. As part of the upfront and ongoing rating process, Standard & Poor's assesses the management capacity of the authority in order to determine the history of timely obligation and expenditure of modernization funds. Virtually all of the authorities with public Standard & Poor's ratings have timely obligated and expended their modernization funds during the last 10 years.

Standard & Poor's also reviews each authority's capacity to carry out the scope of the work to be financed with the bond proceeds, and annually reviews the progress of these projects. All but one of the authorities reviewed remain on or ahead of schedule with their projects. The authorities have used the bond proceeds for a variety of purposes. The most prevalent use is to expedite overall modernization plans based on long-term capital planning assessments, however some authorities use funds to complete new construction projects, to acquire land or as gap financing for multi-layered financings, transactions financed by HOPE VI, tax credit proceeds, HOME, and Community Development Block Grant funds.

Pooled transactions continue to be the vehicle for smaller authorities to take advantage of the CFFP program. In the case of pooled financings, the addition of more housing authorities can serve to increase the volatility of the transaction. This is due to each authority's obligation to pay debt service on the bonds being a several, not a joint, obligation and therefore limited to the authority's proportionate share of the bond series. Credit risk posed by volatility is somewhat offset by strong oversight in pooled financings. Oversight ensures that pool participants continue to meet their obligations to Department of Housing and Urban Development (HUD) and under the trust estate, to mitigate the potential of any performance issues that can interfere with the allocation of modernization funds. With the exception of the Affordable Housing Agency Certificates of Participation (which included only two very well-managed authorities), all five pooled financings rated by Standard & Poor's have an oversight entity monitoring compliance with the terms of the bond documents, timely project completion and general HUD compliance.

To date, more than 63 housing authorities have benefited from bond proceeds supported by a pledge of annually appropriated modernization funds. Authorized in the Quality Housing and Work Responsibility Act of 1998 (QHWRA), the capital fund program is the latest to administer the federal government's modernization of the nation's public housing stock. The amount of funds received by each authority is determined by the capital funding formula, which is calculated and distributed by the HUD. Despite the recent trend of appropriation decreases, Standard & Poor's believes that the credit quality of these transactions remain strong due to the demonstrated long-term support for public housing in general, and modernization in particular. ■

Table 1: Public Housing Authority CFS Ratings

Oversight agent	Published name	Rating as of Feb.1, 2006*	Analyst	Comments
Public Housing Finance Corp., Ala.	Alabama Public Housing Finance Corporation Capital Fund Program Revenue Bonds, Series 2003A & 2003B	AAA, AA-(SPUR)	Valerie White	Issued by the Alabama Housing Authorities, this is a pooled financing. Series A bonds have a term of 10 years and were jointly issued by four public housing authorities (PHAs), while series B bonds have a term of 20 years and were issued by 33 PHAs. An additional bonds test (ABT) allows participating authorities to issue debt that maintains at least 3x coverage. Each PHA's obligation to pay debt service is a several, not joint obligation and is limited to its share of the series. Bond proceeds are used to fund modernization programs being undertaken by each PHA. The extent of each PHA's efforts differ, but typically involve rehabilitation rather than a demolition and redevelopment. As of 2005, all projects were on schedule. Note that this transaction is bond insured by Financial Security Assurance(FSA). Oversight will be performed by the Jefferson County Housing Corp.
Affordable Housing Agency, Calif. (Oxnard-Santa Clara Projects) Series 2004	Affordable Housing Agency Certificates of Participation	AA	Lawrence Witte	Bonds were issued by Affordable Housing Agency (AHA) on behalf of a pool of two housing authorities, the Oxnard Housing Authority and the Housing Authority for Santa Clara County, in the amounts of $5.8 million and $4.5 million, respectively. An ABT allows AHA to take additional bonds into the grantor trust that have a DSC of at least 3x. The bonds are held in a grantor trust administered by the trustee, Wells Fargo Bank, N.A. Bond proceeds were used to expedite rehabilitation and improvement initiatives of existing units for each PHA. Because this pool consists of only two well-managed authorities, Standard & Poor's determined that an oversight entity was not needed for this transaction.
Augusta Housing Authority, Ga.	Augusta Housing Authority Georgia Capital Program Revenue Bonds Series 2004	AA	Valerie White	Bonds were issued by AHA with a term of 20 years. An ABT allows AHA to issue debt that maintains at least 3x coverage Bond proceeds will be used to modernize units in a number of housing developments for the elderly that are managed by the authority. Modernization will include interior upgrades, improvements to common areas, elevator replacements, and security and emergency upgrades. The improvements are designed to improve the comfort and safety of the housing developments' elderly residents. As of January 2006, the AHA's modernization and redevelopment plan was on schedule. The project is expected to be completed by the end of 2007.
Chicago Housing Authority, Ill. Bonds, Series 2001	Chicago Housing Authority Capital Program Revenue	AA	Jeffrey Previdi	Bonds were issued by Chicago Housing Authority (CHA), the third-largest U.S. housing authority, and mature in 2019 Although DSC is very strong, recent appropriations cuts have raised the prospect for coverage below 3x starting in 2006. These bonds were issued in conjunction with CHA's ambitious overhaul of public housing stock in Chicago. The redevelopment plan is on track, with roughly 45% of the units redeveloped at the end of fiscal 2003. Note that through 2009 funding is covered by CHA's "moving to work" agreement with HUD and after 2009 the funds will be determined by the capital funding formula.
Fort Wayne Housing Authority, Ind.	Fort Wayne Housing Authority Capital Funds Housing Revenue Bonds, Series 2003	AA	Valerie White	Bonds were issued by Fort Wayne Housing Authority (FWHA) with a term of 20 years. An ABT allows FWHA to issue debt that maintains at least 3x coverage. Bond proceeds were used to address immediate upgrade and rehabilitation needs throughout the authority's portfolio. The authority anticipated that the total time to complete this work would be reduced to 36 months from 7-8 years by virtue of this bond issue. As of November 2005, the project was proceeding according to schedule and has an anticipated completion date of January 2007.
Kentucky League of Cities, Ky.	Kentucky League of Cities Funding Trust Capital Grant Program Revenue Notes, Certificates of Participation, Series 2004 A (Covington, Ky.)	AA	Karen Flores	This is the first of several COP issuances by the Kentucky League of Cities (KLC) Funding Trust, and was issued on behalf of Covington Housing Authority (HAC). Additional series may be issued on behalf of other housing authorities under the master indenture. Each series will be deemed a separate trust estate and will not be on parity with each other. The series 2004 COPs has a term to maturity of 20 years. An ABT allows HAC to issue debt that maintains at least 3x coverage. COP proceeds fund the renovation of a senior and disabled housing project with 155 apartments upon completion. KLC serves as the program administrator and oversight entity. As of December 2005, the project was 90% complete and is expected to be completed by 2007.

Table 1: Public Housing Authority CFS Ratings (Cont'd)

Oversight agent	Published name	Rating as of Feb.1, 2006*	Analyst	Comments
Kentucky League of Cities, Ky.	Kentucky League of Cities Funding Trust Capital Grant Program Revenue Notes, Certificates of Participation, Series 2004 A (Paducah, Ky.)	AA	Valerie White	This is the second of several COP issuances by the KLC Funding Trust, and was issued on behalf of Paducah Housing Authority (HAP). Additional series may be issued on behalf of other housing authorities under the master indenture. Each series will be deemed a separate trust estate and will not be on parity with each other. The series 2004 COPs has a term to maturity of 20 years. An ABT allows HAP to issue debt that maintains at least 3x coverage. KLC will serves as the pro gram administrator and oversight entity. As of November 2005, the project was on schedule.
New Orleans Industrial onDevelopment Board, La.	New Orleans Industrial Development Board Capital Fund Program Revenue Bonds	AAA, A(SPUR)	Valerie White	Issued by New Orleans Industrial Development Board (IDB) behalf of the New Orleans Housing Authority (HANO), these bonds have a term of 20 years. The 'A' rating on this transaction reflects the slightly lower ABT of 2.5x. Although HANO has a history of poor performance, which resulted in the agency being put in receivership by HUD, Standard & Poor's determined the recent organization changes and management improvements were sufficient to support the rating. Bond proceeds were loaned by IDB to HANO for the development of mixed-financed development projects. As of 2004, all projects were proceeding according to schedule. Note that this transaction is bond insured by FSA.
New Bedford Housing Authority, Mass.	New Bedford Housing Authority, Capital Fund Program Revenue Bonds, Series 2004	AA	Valerie White	Bonds were issued by New Bedford Housing Authority (NBHA) with a 20-year term. An ABT allows NBHA to issue debt that maintains at least 3x coverage. Bond proceeds will fund the major redevelopment of three of the oldest properties in the authority's portfolio, which contain almost 1,650 units in 13 developments. As of November 2005, the project was on schedule and is expected to be completed by December 2007.
Maryland Department of Housing & Community Development, Md.	Maryland Department of Housing & Community Development Capital Fund Securitization Revenue Bonds, Series 2003	AAA, AA(SPUR)	Valerie White	Issued by the Community Development Administration (CDA) of the Maryland Department of Housing (which also serves as the issue's oversight entity), these bonds have a term of 20 years. This is a pooled financing representing five local PHAs. An ABT permits the issuance future bonds series that will maintain at least 3x. Each PHA's obligation to pay debt service is a several, not joint obligation and limited to its share of the series. Bond proceeds were used to fund individual loans to each authority. The PHAs in turn used the loan proceeds to expedite modernization programs outlined under each authority's HUD five-year plans. As of August 2005, all five authorities were on schedule with their rehabilitation projects, and the latest anticipated completion date is November 2006.
Philadelphia Housing Authority, Pa.	Philadelphia Housing Authority Capital Fund Program Revenue Bonds, Series 2002 A&B, Series 2003 C&D	AAA, AA(SPUR)	Jeffrey Previdi	Bonds were issued by Philadelphia Housing Authority, the fourth-largest public housing authority, with a 20 year term. DSC is strong at more than 6x at issuance and with an ABT of 3x. The 2002B and 2003C and D bonds were issued by the Philadelphia Redevelopment Authority on behalf of the Philadelphia Housing Authority. There is no additional backup support from the Philadelphia Redevelopment Authority. All four series were issued under the same parity resolution. The series 2002A and B bonds were issued to assist in the redevelopment of Tasker Homes, one of the oldest developments in the authority's portfolio. Proceeds were used to demolish and rebuild the property. Series C proceeds were used to finance a loan for the acquisition, construction, and equipping of a 184-unit development at Tasker Homes. Series D proceeds funded for additional projects permitted under the indenture. As of Dec. 20, 2005, the PHA's modernization and redevelopment plan was on schedule. The remaining projects are expected to be completed by mid-2006. Note that this transaction is bond-insured by FSA.
Puerto Rico Housing Finance Authority, P.R. Financing Bonds, Series 2003	Puerto Rico Housing Finance Authority Capital Grant	AA	Valerie White	Bonds were issued by Puerto Rico Housing Finance Authority (PRHFA) on behalf of Puerto Rico Public Housing Administration (PRPHA). Bond maturity has a term of 20 years. An ABT allows PRPHA to issue debt that maintains at least 3x coverage. Bond proceeds were loaned to the PRPHA by the issuer pursuant to a loan agreement. Proceeds were used to partially fund an accelerated modernization of more than 20,000 units in approximately 100 properties. As of Sept. 30, 2005, the project was proceeding according to schedule and is anticipated to be completed by December 2008. PRPHA is the second-largest housing authority in the country and manages 56,000 units in more than 320 properties.

Table 1: Public Housing Authority CFS Ratings (Cont'd)

Oversight agent	Published name	Rating as of Feb.1, 2006*	Analyst	Comments
Woonsocket Housing Authority, R.I. Bonds Series 2003	Woonsocket Housing Authority Capital Fund Program Revenue	AA-	Valerie White	Bonds were issued by Woonsocket Housing Authority (WHA) with a term of 20 years. DSC for the transaction was estimated to be at least 3x though bond maturity and an ABT allows WHA to issue debt that maintains at least 3x coverage. Bond proceeds were used to partially fund construction and reconfiguration of 14 buildings of approximately 130 units to comply with Americans with Disabilities Act standards. As of October 2005, the project was on schedule and is expected to be completed in September 2009.
Knoxville Community Development Corporation, Tenn.	Knoxville Community Development Corporation Capital Program Bonds, Series 2004	AA	Valerie White	Bonds were issued by Knoxville Community Development Corp. (KCDC) with a term of 20 years. An ABT allows KCDC to issue debt that maintains at least 3x coverage. Bond proceeds were used to finance accelerated renovation and repairs to two of KCDC's public housing family developments with more than 600 units in 170 buildings.
Tacoma Housing Authority, Wash.	Tacoma Housing Authority Capital Fund Program Revenue Bonds Series 2005	AA	Valerie White	Bonds were issued by the Tacoma Housing Authority (THA) with a term of 20 years. An ABT allows the THA to issue debt that maintains at least 3x coverage. These bonds could better withstand future cuts in the Capital Fund because debt service is expected to increase during the term of the bonds to an average of 4x coverage. The increase in debt service coverage is a result of hyper-amortization of principal during the first five years of the bond term. Bond proceeds will fund infra structure improvements in connection with the overall plan of the THA to develop a housing development known as the Salishan HOPE VI Project located in Tacoma, Wash.
Housing Authority of Portland, Ore.	Portland Housing Authority (New Columbia Trouton Financing) Capital Fund Program Bonds Series 2005	AA	Lawrence Witte	Bonds were issued by the Housing Authority of Portland with a term of 20 years. These bonds can better withstand future reductions in the Capital Fund allocations because of the extremely high debt service coverage of more than 8x throughout the entire transaction, surpassing 11x during the second half of the transaction. An ABT allows the authority to issue debt that maintains at least 3x coverage. Bond proceeds will fund gap financing for a mixed-income development, New Columbia, on the site of the former public housing development, Columbia Villa.
New York City Housing Development Corp., N.Y.	New York City Housing Development Corporation Capital Fund Program Revenue Bonds, Series 2005	AA	Valerie White	Bonds were issued by NYCHDC on behalf of NYCHA with a 20 year term. DSC for the transaction was estimated to be almost 15x though bond maturity and an additional bonds test allows NYCHA to issue debt that maintains at least 3x coverage. Bond proceeds will fund a loan from NYCHDC to NYCHA. Loan proceeds will fund certain improvements to numerous various public housing projects owned and operated by NYCHA. NYCHA is the oldest and largest public housing authority in the nation and NYCHA manages more than 163,000 units in almost 320 developments throughout the five boroughs of New York City.
District of Columbia Housing Finance Agency, D.C.	District of Columbia Housing Finance Agency Capital Fund Securitization Bonds, Series 2005	AA	Valerie White	Bonds were issued by DCHFA on behalf of DCHA with a 20 year term. DSC for the transaction was estimated to be at least 3x though bond maturity and an additional bonds test allows DCHA to issue debt that maintains at least 3x coverage. The 2005 bonds will fund a loan from DCHFA to DCHA. Loan proceeds will fund certain improvements to numerous various public housing projects owned and operated by DCHA.
Illinois Housing Development Authority, Ill.	Illinois Housing Development Authority Capital Fund Program Revenue Bonds, Series 2005	AA	Jeffrey Previdi	Bonds issued by IHDA on behalf of 5 participating public housing authorities (PHAs). The series 2005A bonds will have a term of 20 years and are supported by the following PHAs: Housing Authority of the County of Cook; Housing Authority of Joliet; Greater Metropolitan Housing Area Authority of Rock Island County; Lee County Housing Authority; Quincy Housing Authority. DSC for the transaction was estimated to be at least 3x though bond maturity for each authority. Bond proceeds will be used to expedite the modernization programs being undertaken by each PHA that are funded via annually appropriated capital funds. The extent of each PHA's modernization efforts differs, but typically will involve rehabilitation and improvement of existing units rather than the demolition and redevelopment of housing units.

Table 1: Public Housing Authority CFS Ratings (Cont'd)

Oversight agent	Published name	Rating as of Feb.1, 2006*	Analyst	Comments
Pennsylvania Housing Finance Agency, Pa.	Pennsylvania Housing Finance Agency's Capital Fund Bond Pool Series 2005A	AAA/Stable, AA(SPUR)/Stable	Valerie White	Bonds were issued by PHFA on behalf of seven participating public housing authorities (PHAs). The series 2005A bonds will have a term of 20 years and are supported by the following PHAs: Housing Authority of the County of Beaver, Housing & Redevelopment Authority of the County of Butler, Housing Authority of the county of Lawrence, Housing Authority of the City of Shamokin, Northumberland County Housing Authority, Housing Authority of the County of Lebanon, and Mercer County Housing Authority. DSC for the transaction was estimated to be at least 3x though bond maturity for each authority. Bond proceeds will be used to expedite the modernization programs being undertaken by each PHA that are funded via annually appropriated capital funds. The extent of each PHA's modernization efforts differs, but typically will involve rehabilitation and improvement of existing units rather than the demolition and redevelopment of housing units.
Meridian Housing Authority, Miss.	Meridian Housing Authority's Capital Fund Revenue Bonds	AA Series 2005 A&B	Valerie White	Bonds were issued by the Meridian Housing Authority (MHA). Initially, bond proceeds will be deposited in a guaranteed investment agreement provided by IXIS Funding Corp. guaranteed by IXIS CIB. Funds will remain on deposit pending HUD's approval of the mixed finance application associated with the project. Approval must be obtained within 120 days or the bonds will be redeemed in full. The series 2005A bonds mature in 2025. The series 2005B bonds mature on Sept. 1, 2007, which is reflected by the note rating. Bond proceeds partially fund a 72-unit new construction mixed-income rental property as part of the authority's mixed-finance HOPE VI redevelopment project.
Seattle Housing Authority, Wash.	Seattle Housing Authority's Capital Fund Program Bonds Series 2005 A&B	AAA, AA(SPUR)	Lawrence Witte	Bonds were issued by theSeattle Housing Authority for term of 20 years. Although the coverage level is a very strong 9.75x on the first series of bonds, the next two series of bonds are expected to decrease debt service coverage to 3.30x, at which point decreases in funding will result in over all debt service coverage closer to 3.0x. Bond proceeds will be used for various modernization projects at 21 developments, ranging in cost from $622,000 to $2.1 million. The total budgeted costs are approximately $34 million. The projects are expected to be completed by 2010 and include replacement of water lines and intercom, exterior masonry repairs, and repair and replacement of ventilation system and emergency call system. Other improvements include new finishes, furnishings, carpeting, lighting and hardware replacement, and the completion of previously funded elevator rehabilitation and boiler replacement. There will be no large-scale demolition or rehabilitation, and residents will not be relocated. The individual projects were determined based on a 30-year physical needs assessment. The projects are those that most need immediate attention or can be remedied with minimal expense. The authority states that the securitization of capital grant funding will enable it to reduce the time required to complete the projects to five years from 11 years. By dedicating a portion of the capital grant funds to cover debt service, the remainder can be used to meet needs at other properties.

* All ratings in this table carry a stable outlook.

Table 2: Previously Published Capital Fund Articles

Article title	Publication date
Public Finance Report Card: Public Housing Authority Capital Fund Securitization Ratings	March 21, 2005
The Evolution of Public Housing Authority Capital; Securitizations	Jan. 21, 2004

*Articles are available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com.

Long-Term Public Finance Credit Ratings

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories, but the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters, but adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
BB	An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues, but it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
B	An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.
CCC	An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
CC	An obligation rated 'CC' is currently highly vulnerable to nonpayment.
C	The 'C' rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken but payments on this obligation are being continued. 'C' is also used for a preferred stock that is in arrears (as well as for junior debt of issuers rated 'CCC-' and 'CC').
D	The 'D' rating, unlike other ratings, is not prospective; rather, it is used only where a default has actually occurred-and not where a default is only expected.
+/-	The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the category.

HOW THE RATING PROCESS WORKS

Standard & Poor's follows a basic format in assigning a rating to an organization. From first request to publication, this is how our rating process works.

1. The Rating Request

When an organization first requests a rating, a Standard & Poor's analyst in that sector is assigned to head the rating team, and he or she schedules a meeting with management. Several weeks in advance of the meeting, the organization will be expected to provide the following information:

- Five years of audited annual financial statements;
- The last several interim financial statements;
- Narrative descriptions of operations and products; and
- Any other documentation that analysts deem pertinent to a particular rating determination.

2. The Management Meeting

Typically, a few weeks after Standard & Poor's analytical team has had an opportunity to review the materials and has identified the key analytical issues to be addressed, the team meets with senior management (usually the CFO or Treasurer). They review historical results, of course, but the focus is on the organization's future prospects. A meeting with a new issuer can last anywhere from two hours to as long as two days, depending on the entity's complexity, and addresses such issues as:

- The industry environment and prospects;
- An overview of major business segments, including operating statistics and comparisons with competitors and industry norms;
- Management's financial policies and financial performance goals;
- Distinctive accounting practices;
- Management's projections, including income and cash-flow statements and balance sheets, together with the underlying market and operating assumptions;
- Capital spending plans; and
- Financing alternatives and contingency plans, if any.

Management's financial projections are a valuable tool in the rating process, because they indicate management's plans, assessment of its own challenges, and roadmap for responding to its challenges. Management projections also depict the organization's financial strategy in terms of anticipated reliance on internal cash flow or outside funds, and help to articulate financial objectives and policies. All that being said, it nevertheless should be understood that Standard & Poor's ratings are not based on management's financial projections or management's view of what the future may hold. Rather, ratings are based on Standard & Poor's own assessment of the organization's prospects. Comparing the organization's projections with our analysts' own independent views of the organization's and industry's prospects also helps us to evaluate whether its management style is conservative, realistic, or aggressive. Facility tours for one or more analysts are often helpful, but not critical.

3. Standard & Poor's Review And Analysis

Once Standard & Poor's has held the Management Meeting, the lead analyst reviews and analyzes the information obtained, both quantitatively and qualitatively, in terms of business risks, such as growth and cyclicality; those risks peculiar to the organization's industry and competitive position within that industry; and the quality of the organization's management and accounting. Then the organization's financial risks are considered: its characteristics, policies, profitability, capital structure, cash flow and asset protection, financial flexibility, and liquidity. The committee's initial review process usually takes a few weeks and culminates in the Rating Committee Meeting.

4. The Rating Committee Meeting

A Standard & Poor's rating is never assigned by a single analyst. Instead, ratings are all determined by a committee of experienced analysts. The rating committee generally comprises five to seven members, including the primary analyst. When the meeting is convened, the members make a critical examination of the primary analyst's findings. The candid and complete analysis may take several hours, depending on the complexity of the entity. Only when everyone is satisfied that he or she understands the profile fully does the committee vote and assign a potential rating.

5. The Call To The Organization

One member of the analytical team then calls the organization to announce the committee's conclusion.

6. The Appeal Period

After Standard & Poor's has announced the committee's decision to the organization, the organization has a brief time, generally a day or two, in which it may appeal the rating--but only if it can offer substantive, material information not previously available to the committee. The committee's final decision is then announced to the organization and to the media.

7. The Press Release

A press release is sent out to the media, announcing the rating, the rationale behind the rating, and the rating Outlook (our view of the organization's long-term prospects).

8. After The Rating Is Assigned: Reports And Ongoing Surveillance

The rating process does not end when the rating and Outlook are assigned; it is ongoing. Through ongoing dialogue with management, Standard & Poor's maintains surveillance on all the organizations it rates. If there is a specific event that Standard & Poor's perceives might have an effect on the rating, we review it immediately, and make an announcement either that the rating is being changed or placed on Creditwatch because of the event, or that we see no reason to change the rating at that time, in spite of the event. Absent material financial events, organizations are reviewed regularly and updated as necessary. In addition to providing a rating, analysts also prepare longer, more detailed research reports, which are available by subscription to the S&P information service RatingsDirect.

9. CreditWatch

When a specific situation arises that might affect an organization in the short term and about which Standard & Poor's lacks sufficient information, the organization's Outlook is withdrawn, and the organization is put on CreditWatch. A CreditWatch listing is an indication that we are waiting to see how the situation develops-such as we might in the case of a pending merger, acquisition, or lawsuit-before we make a decision about changing our rating and Outlook on the organization. CreditWatch may have positive, negative, or developing implications, but an organization stays on CreditWatch only until the precipitating event is resolved, usually less than a few months.

10. The Analytical Policy Board

Our Analytical Policy Board is our quality-control system. Standard & Poor's Analytical Policy Board consists of a thirteen-member board of senior criteria and policy experts: one member from each of our geographical regions (such as the U.S., Latin America, or Asia); one member from each business unit (such as Public Finance, Financial Institutions, or Industrials); a chairperson; an attorney; and a research assistant. The Analytical Policy Board's function is to monitor the rating process, so that we maintain a considered and consistent approach--across disciplines, national borders, and business units--and to oversee rating changes that are significant, either ecause some news or economic event has occurred or because a rating is being lowered or raised by more than one rating category at a time. The Board also initiates new criteria when appropriate, such as in response to newly created credit instruments.

11. Additional Information On The Rating Process And Rating Criteria

Additional, more specific information on Public Finance Ratings Criteria is available on our public Web site: www.standardandpoors.com.

Standard & Poor's Rating Process

1. THE RATING REQUEST

2. THE MANAGEMENT MEETING

3. STANDARD & POOR'S REVIEW AND ANALYSIS

4. THE RATING COMMITTEE MEETING

5. THE CALL TO THE ORGANIZATION

6. THE APPEAL PERIOD

7. THE PRESS RELEASE

8. AFTER THE RATING IS ASSIGNED:
REPORTS AND ONGOING SURVEILLANCE

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Notes

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